LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6298 **NOTE PREPARED:** Dec 23, 2003
BILL NUMBER: HB 1090 **BILL AMENDED:**

SUBJECT: Rental Property Valuation and Tax Deductions.

FIRST AUTHOR: Rep. Buell **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill establishes standards for the determination of the true tax value of low-income rental housing. The bill also provides a property tax deduction for buildings containing principal rental dwellings.

Effective Date: March 1, 2004 (retroactive).

Explanation of State Expenditures: *Rental Unit Deduction:* The new deductions for rental property in this proposal would cause an increase in homesteaders' property tax bills which would result in an additional cost to fund the homestead credit. **The expenditure increase is estimated at $3.0 M in FY 2005 and $8.9 M per year thereafter.**

Explanation of State Revenues: *Rental Unit Deduction:* The state levies a small tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The reduction in state revenue under this bill is estimated at $130,000 in FY 2005 and $260,000 per year beginning in FY 2006.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Assessment of Low-Income Rental Housing*: The bill would limit assessors to the use of the capitalization of income method on low-income rental housing and would prohibit consideration of tax credits or government subsidies in determining the value of this property.

Under SEA 1-2004, all rental property with more than four units must be valued under the approach (cost, sales, or income capitalization) that yields the lowest valuation. The income capitalization approach would most likely yield the lowest assessment for low-income rental housing and would probably be used even in the absence of this proposal.

The restrictions on the income considered could reduce the value of some low-income rental property in certain situations. There is a great deal of uncertainty surrounding the issue of when and how subsidies are to be considered under current statutory law, current case law, and the new market value assessment rule. Currently, the assessment of low-income housing property under the income method might or might not consider the income from subsidies. Under this bill, these assessments definitely would not consider subsidy income.

Rental Unit Deduction: Under this proposal, each building containing rental property would be eligible for a property tax deduction. The deduction would vary depending on the number of units in a building and would equal the following:

Buildings with less than 5 units: – The lesser of 50% of gross AV or $35,000 total;
Buildings with 5 to 8 units – The lesser of 50% of gross AV or $8,750 per unit;
Buildings with 9 to 20 units – The lesser of 50% of gross AV or $5,250 per unit; and
Buildings with more than 20 units – The lesser of 50% of gross AV or $3,500 per unit.

According to 2000 Census figures, there were about 187,750 single-unit rentals, 84,900 units in 2-unit buildings, 100,800 units in 3- or 4-unit buildings, 115,300 units in 5- to 9-unit buildings, 81,400 units in 10- to 19-unit buildings, and 104,900 units in buildings containing at least 20 dwellings. The total maximum statewide deduction under this provision is estimated at about $10.9 B.

A reduction of the assessed value base causes a shift of the property tax burden from the taxpayers receiving the deductions to all taxpayers in the form of an increased tax rate. A $10.9 B reduction in AV would cause an estimated 4.1%, increase in the statewide average net tax rate, causing a shift to other taxpayers of about $215 M per year beginning in CY 2005.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the AV reduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County and township assessors; County auditors.

Information Sources: Kurt Barrow, Director of Assessments, Department of Local Government Finance, (317) 232-3777; Dataset: SF3, Tables: H7 and H30, U.S. Census Bureau; Local Government Database.

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